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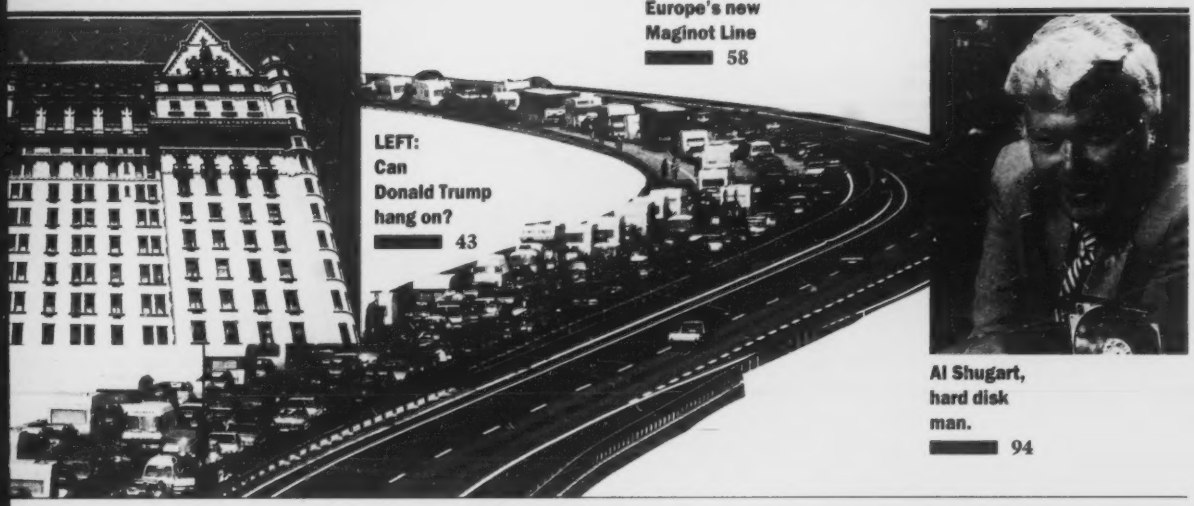

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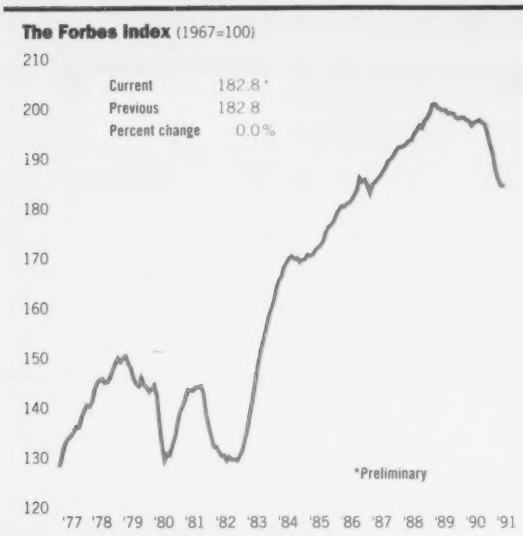
THE FORBES INDEX

BY TIMOTHY DODMAN



New claims for unemployment benefits fell 8% in May. More good news: A jump in nonfarm payrolls by 59,000 workers represented the first monthly gain in 11 months. Other positive signs include a 1% rise in retail sales and a 0.5% gain in industrial production in May. Despite worries of higher inflation accompanying any recovery, the Consumer Price Index rose just 0.3% in May, with most of the increase a result of rising energy prices. There is a good chance the Forbes Index will finish June on a gain from the previous month, ending a nine-month losing streak.

Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5%
Auto sales year to date vs 1990[1]	Ward's Automotive	-12.8%
Index of leading indicators Apr vs Mar	Dept of Commerce	0.6%
Trade balance 12 months ended Mar 1991	Dept of Commerce	-$91 bil
All-commodity producer price index May vs Apr[2]	Dept of Labor	0.4%
GNP 1st quarter vs. 4th—annualized growth	Dept of Commerce	-2.6%
NBER Experimental Recession Probability Index[3]	Natl Bureau of Economic Research	2.0%

[1] U.S.-based manufacturers, excludes imports, as of 6/10/91.
[2] Wholesale goods. [3]April 1991.

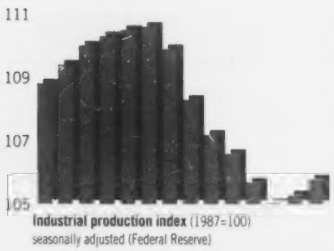
Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.

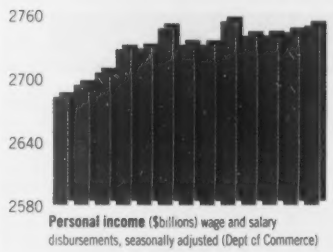
Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

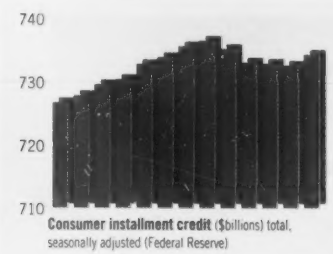
New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)

New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

A M J J A S O N D J F M A M A M J J A S O N D J F M A M A M J J A S O N D J F M A M

You think the auto business is tough in the U.S.? Well, take a look at Europe. Instead of the big three, they have the big six, plus some strong niche players. And here come the Japanese.

Will the (new) Maginot Line hold?

By Jerry Flint

WALTER HAYES, retired vice chairman of Ford of Europe, ponders the future of his company and his industry. "We are engaging in the Third World War," he says. "This one won't be won by Schwarzkopf or some fellow who looks good on TV. It's going to be won by a little bugger who can think."

What he will need to think about is how to prevent the Japanese auto industry from repeating in Europe what it has accomplished in the U.S., where it now owns 30% of the market in what was once a quintessentially American product.

Hayes is being a bit dramatic, but it's a question of survival for a good number of companies and literally hundreds of thousands of jobs. Europe's is a huge auto market, 13 million car sales even in this recession year, against fewer than 9 million in the U.S. Add on enormous potential growth from Southern and Central Europe, from Portugal to Hungary.

No surprise that the Japanese companies want a piece of this. What frightens many is that the Japanese seem to be following, perhaps a decade later, the same pattern they used in their successful invasion of the U.S.

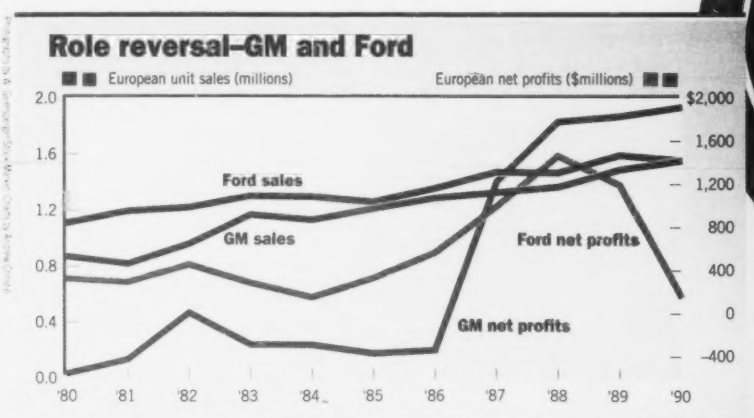
First comes biting off the periphery. In Europe's case the periphery is export markets—Africa and the Middle East, North America. In the non-car-producing nations of Europe, such as Finland, Ireland, Norway and Switzerland, where they face fewer political obstacles, the Japanese have already captured 25% to 45% of the market. Then come the new transplant factories in the heartland with their advantages: tax subsidies and hungry young workers without the traditional union baggage, adding up to higher productivity, higher quality, quicker reaction to market changes.

First come the cheap, small cars to build market share. Then come the stylish sedans, then the expensive luxury sedans, which are still relatively rare in Europe. "They may be holding back until these trade discussions end," guesses John Hardiman, chairman of German Ford. No doubt the Japanese want to avoid having Mercedes and BMW join the anti-Japanese alliance.

Why have the Japanese moved so much slower in Europe than in the U.S.? Quotas in key producing states—Italy, where the Japanese quota is close to zero, Spain and France, where it's 3%, and then Britain, where it's a gentleman's agreement 11%. Europe is already a donnybrook so far as cars are concerned. In place of our big three, Europe has the big six: VW, with 16.6% of Western Europe; Fiat, with 13.3%; GM, closing in near 13%; Ford and Peugeot, around 12% each this year; and Renault, with 10%. Then there are the big niche players: Mercedes, BMW, Porsche, Rover and Volvo, plus some small but renowned nameplates like Rolls-Royce and Saab.

The donnybrook is going to get a lot rougher—that's why Hayes talks about "war" when the quotas expire in 1993. The Japanese are building plants: Nissan in

Europe is where the action is. The Japanese, held back by quotas, are building plants to cash in on 1993's open borders. The Western European carmakers demand protection but also have enormous growth potential in Central Europe, which would need another 25 million cars to catch up with the West. The U.S. entries, Ford and GM, reverse roles: GM, strong in suddenly booming Germany, sets profit records. Ford, strongest in Britain, is crippled by the recession and low productivity. To outmaneuver the Japanese, GM pushes east, while Ford pushes south.



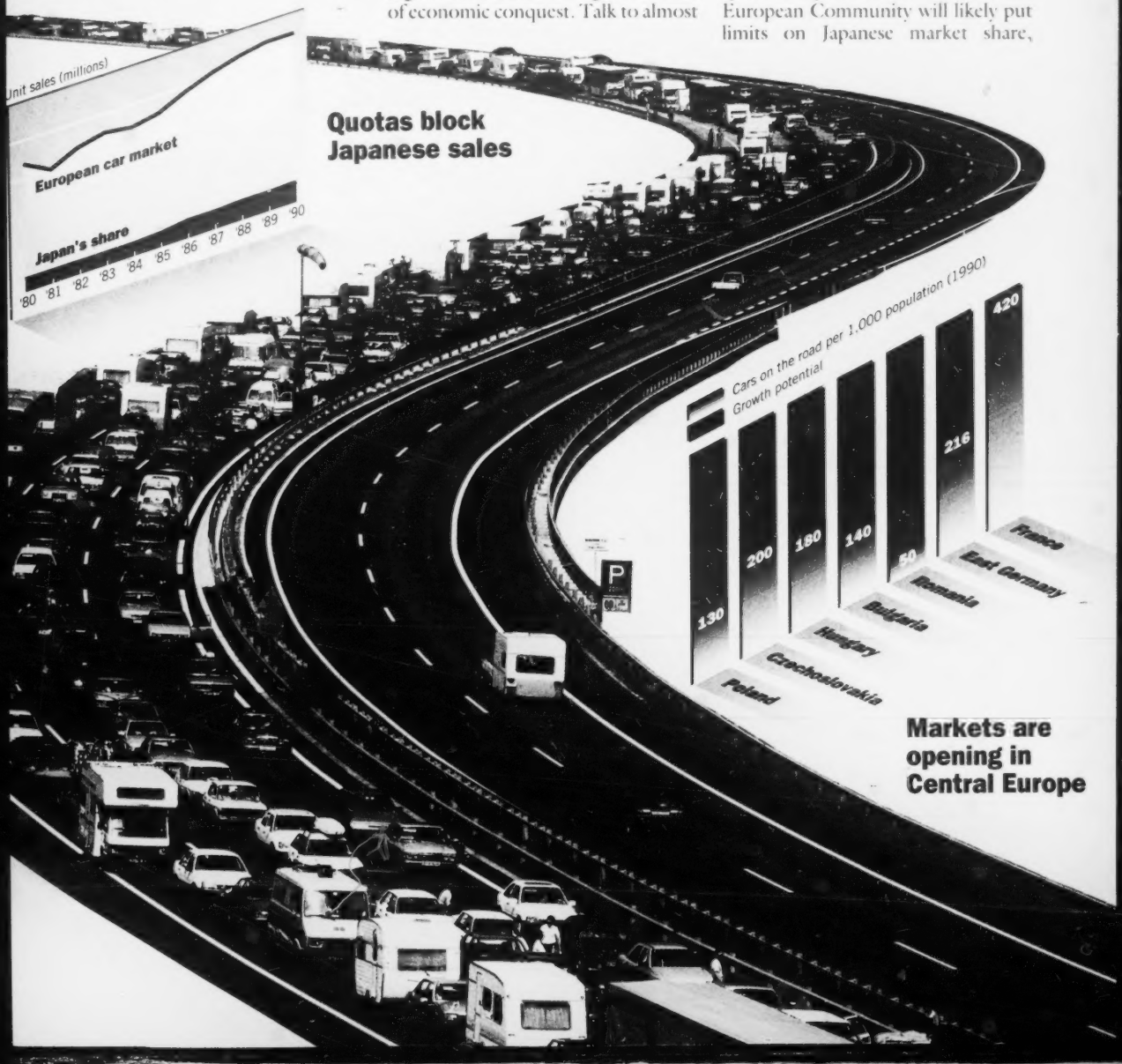
Britain is rolling cars at a 100,000-a-year rate now, losing money but planning to double production quickly. Toyota and Honda are building in Britain, and Mitsubishi has an assembly deal in the Netherlands.

If history repeats itself, a second tier of plants will start coming by 1995, adding up to 2 million units of new capacity, says Lindsey Halstead, chairman of Ford of Europe. Trojan horses, he calls these factories. His use of the term is full of meaning. He explains that, since there isn't much overall growth in the market, every bit of capacity the Japanese add may make obsolete a unit of existing capacity. That idle capacity pushes up unit costs among the established manufacturers at the very time the Japanese are reducing their costs with brand-new plants, new workers and additional economies of scale. If the Japanese control the Asian markets and win a third of North America and Europe, they will win the battle of scale and bring down their unit costs to the point where the war will be over. So say the worriers.

Jacques Calvet, who heads French Peugeot, is one of the loudest worriers. He strikes a chauvinistic line, coming close to racism, when he says that the Japanese compete by sacrificing their standard of living for the sake of economic conquest. Talk to almost any European automan and you will hear much the same complaint, but in private.

The European automakers still have a few advantages Detroit has lacked, most important a willingess to use thumb-in-eye tactics. Example: Generally the Japanese cannot sell their cars in dual dealerships in the European Community as they can in the U.S., which means no cheap, fast way to build distribution networks.

There are other advantages. "First, we already make small cars, and we're aware of their strength. And here the government will help us, not them," says Hardiman of German Ford. Despite the open borders of 1993, the European Community will likely put limits on Japanese market share,



Lindsey Halstead, Ford of Europe's chairman

He promises a course correction: more spending on the cars and more Europeans in top jobs.

probably around 15% to 17% by the end of the decade. The big closed markets like Italy and France will open only slowly.

All European carmakers also have their own defense strategies:

Volkswagen expands partsmaking in China and Mexico and carmaking in Spain and Czechoslovakia.

GM spreads its parts-buying out of Germany, goes to three-shift assembly and plans to make its new plant in eastern Germany a model of Japanese methods learned at the GM-Suzuki joint venture plant in Canada.

Renault and Volvo agree to work together. Fiat counts on automating its factories to match Japan's productivity and quality.

But no one is more threatened than Ford, because Ford is probably running red in Europe. The late Henry Ford II foresaw a united Europe back in 1967 and pushed his many national companies into one Ford of Europe to prepare for that day. In recent years a third of the company's profit came from Europe, but something's gone wrong. Most of the $1-billion-plus in annual profit and $2 billion in operating profit from Europe disappeared last year, which may be one of the reasons Ford stock has lost nearly $6 billion in market value over the past 12 months.

What went wrong?

■ Management: The chief executive slot at Ford of Europe has been a revolving door this past decade for folks sent out from Detroit. Says Karl Ludvigsen of London, who publishes *Euromotor Reports*: "You can't run a European car company today with itinerant Americans who are learning on the job."

Lindsey Halstead, the chairman of Ford of Europe and an American, doesn't disagree. "We're going to have more Europeans in key jobs than we have today," he says.

■ The market: The British market collapse hit Ford harder than most. The U.K. is Ford Europe's biggest market, where it leads with 25% of the sales and earns most of its European profit. Bad times chopped industry car sales 25% this year and 31% over two years. But Ford has also lost U.K. market share, down from 30% a decade ago, meaning some of the problem is its own.

■ Product: "You can't win with 10-year-old cars and 12-year-old engines," says Maryann Keller, the New York auto analyst at Furman Selz Inc. The British team admits it. Forgetting the lesson of the stylish Taurus in the U.S. and the Sierra in Europe, Ford management turned conservative and decided to change as little as possible in its new product.

Worse was becoming penny-wise and pound-foolish, putting off product spending, especially on engines. Result: When the new European Escort, Ford's bestselling Eurocar, was introduced last year, it received terrible press reviews, important in Europe, in part because big-horsepower engines were not available. Even Ford's U.S. headquarters admits this was a serious error.

■ Productivity and quality: The British plants don't match the Continental plants, let alone the Japanese plants. An Escort from Ford's Halewood plant, near Liverpool, costs $350 to $400 more to make than the German model. The quality isn't good enough to export, so although Escorts are scarce in Germany, they aren't exported from Halewood, which also went on strike just as the Escort was being launched, costing hundreds of millions of dollars.

■ Jaguar: Ford's $2.5 billion catch is losing money. Sales collapsed with the British and U.S. recessions, and with the new Japanese luxury car competition in the U.S., where Jaguar has made most of its profits.

More embarrassing, GM of Europe, which always trailed Ford of Europe, is now outselling its traditional enemy and making record profits. Some of that is luck: GM's best market, Germany, is booming, while Ford's best market, Britain, collapses. But part of it is product: GM spent on new cars and engines while Ford was pinching pence, and it shows in the sales. As the chart on page 58 shows, GM was willing to lose $2 billion in the early and mid-1980s in order to make $7 billion during the 1987-90 period.

Fortunately, Ford management knows it goofed and has a well-thought-out comeback strategy. It involves:

■ Building sales in Italy, France and Spain—the countries that will fight

the Japanese the hardest. Ford is selling 11% of the Italian market this year, up from 8% last year. France is near 10%, from 7% a year ago. Ten percent is the "critical mass," says Bruce Blythe, Ford's European strategist, the share needed to build dealers, distribution and recognition.

■ Using the U.S. as a production base, potentially one of the most exciting developments of the decade. Directive F104 from the president of Ford in Dearborn orders that all future product programs be designed for the world market. This means, for example, that future U.S. Fords will be designed for easy conversion to right-hand drive and European regulations. "The North American manufacturing system is reemerging as a world player," says John Oldfield, Ford of Europe's chief of product development. "Mr. Iacocca and Mr. Lutz [Lee and Robert, former Ford officials now heading Chrysler] showed that this can be done" by exporting Jeeps and minivans to Europe. If Ford had planned its Louisville-built Explorer for export a few years ago, the company might be selling tens of thousands in Europe today, three-shifting Louisville, and counting the extra profits in the hundreds of millions.

■ Getting lean. Ford's European employment dropped to 100,000 (before Jaguar), from 150,000 a decade ago, and the company is building 400,000 more vehicles. It's not good enough. "Every single process must change. We must change it all. The way we answer the mail, the way we pay the bills, the way we engineer the cars," says William Fike, Ford of Europe's president. "This isn't getting rid of secretaries. It's reducing the bureaucracy. It's not just money; it's aimed at shorter product cycles." Fike figures it's a two-year job.

■ Productivity. Ford's assembly plants in Saarlouis (Germany) and Genk (Belgium) are considered the most productive in Europe. It's not good enough. In the fall of 1992 Ford will follow GM and start three-shifting, first at Genk, where the new midsize Sierra will be built, then at other plants as demand grows. New parts are being designed for easier manufacture. Today's Escort engine, for example, takes 3.7 labor hours to build. The new engine for the Escort going into production for fall will take 2.7 hours. The best in Japan take 2 hours, Ford says. The goal: Catch the Japanese in the mid-1990s.

The serious problem is the Halewood plant, where costs run $350 to $400 a car over the Saarlouis plant and quality suffers. Closing a car plant is not easy in Europe, but it could happen.

"We will put it to the people: 'You will have to improve Halewood, or Halewood is going under,' " says Albert Caspers, who heads Ford of Europe manufacturing and once ran Halewood. "No one has to tell me to close Halewood. The customer will tell me if our cars aren't acceptable, in cost, in quality. We have to meet the Japanese." British unions are notoriously hard to deal with, but Ford's management has had its spine stiffened by recent vicissitudes.

■ Product. A huge get-back-in-the-game spending program is under way, $11 billion in five years. A new engine for the Escort, the Zeta, will come out this fall: Passing time from 30 to 50 miles per hour will shrink in half from 17 seconds. Ford will have its step-up engines finally, 150 and 220 horsepower, the kind of power Europeans like, and the kind that pushes up profits. A new, sleek, midpriced Sierra is due in the fall of 1992, and a rush restyling of the Escort car will be ready then, too, the fastest touch-up Ford has ever done in Europe.

Trucks are being pushed, and Ford thinks it will soon challenge Renault for truck sales leadership across Europe. A joint venture with Volkswagen to build minivans in Portugal might be a prelude to other projects with the giant German carmaker.

If the car recession ends in Britain, Ford of Europe officials say they will get half the company's profit back next year and all of the annual $1-billion-plus net the year after. They are confident they can win the short-term profits battle. But the war against the Japanese? That's going to be a lot tougher.

"This is going to be war in the early Nineties," says Fike. "We see exactly what we saw in the U.S. in the early Eighties. But this time we're getting ready." ■

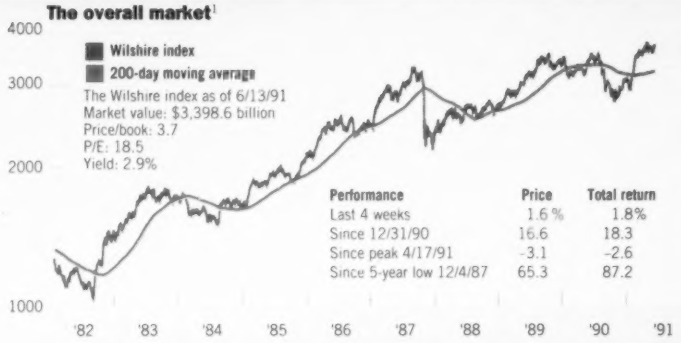
William Fike, Ford of Europe's president
"Change it all! The way we answer the mail, the way we pay the bills, the way we engineer the cars."

Robert S. Robbins, a market strategist at American Express' Robinson-Humphrey unit, is betting that the expected economic recovery is bona fide and won't fizzle after only a few months. Robbins sees some parallels between the present situation and economic conditions back in 1982, when the stock market took off.

"Equities have the best of both worlds at this part of the economic cycle," he says. "Inflation is low and interest rates should come down despite their recent uptick." Robbins is looking for an earnings-driven summer rally, and concedes that many of his favorite stocks—Nucor, Dell Computer, Home Depot and U.S. Surgical, for instance—represent an aggressive portfolio that would likely underperform the market if the economy were to backslide.

The Dow industrials lost 1.2% and slipped below the 3000 mark for the two weeks ended June 13. But Dow component Goodyear, which appointed a new chief executive, rose 27%. Some of the sharpest setbacks were suffered by health care issues. Amsco, Genzyme, Cetus and U.S. Healthcare were hit with double-digit losses. Time Warner lost one-fifth of its value during the two-week period and now trades under 100. In 1989 Time Inc.'s board rejected a $200-per-share, all-cash offer from Paramount Communications.

The overall market[1]



Performance	Price	Total return
Last 4 weeks	1.6%	1.8%
Since 12/31/90	16.6	18.3
Since peak 4/17/91	-3.1	-2.6
Since 5-year low 12/4/87	65.3	87.2

The best performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Ivax	26½	39%	NM	281	2.6
Goodyear Tire & Rubber	33⅛	27	NM	785	2.5
Geneva Steel	15¾	16	7	92	2.1
Oracle Systems	9	16	22	1,547	1.3
Danaher	22	15	22	128	2.4

The worst performing stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Calgon Carbon	22¼	-21%	22	370	2.3
Time Warner	95	-21	NM	659	4.4
Amsco	15⅝	-20	21	80	0.5
Aldus	44¾	-16	25	282	1.3
Cincinnati Bell	19⅜	-15	14	94	2.6

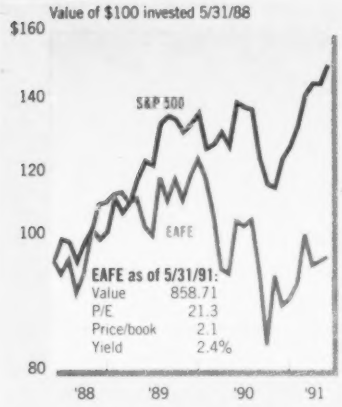
Closeup on the market

Index or investment	Price or rate	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,616.0	-2.1%
Wilshire index 6,000 stocks, equal weighted	24.7	0.2
Dow Jones industrials 30 stocks, divisor-adjusted price average	2965.1	-1.2
S&P 500 Capitalization weighted cross section, major stocks	377.6	-2.4
NYSE Capitalization weighted, all listed common stocks	207.1	-2.1
Amex Capitalization weighted total return: stocks, warrants	366.1	-1.0
Nasdaq Capitalization weighted, all issues except warrants	491.1	-2.4
Amex international market index Capitalization weighted, 50 largest ADRs	307.8	-2.8

Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	815.70	-4.7%
Institutional[5] Approximately 200 stocks with high institutional ownership	124.92	-2.2
Individual[5] Approximately 200 stocks with low institutional ownership	104.23	-0.4
Russell 2000 index 2000 small market value stocks, capitalization weighted	174.71	-1.2
Gold[6] (composite quote of 6 major dealers)	$369.60	1.7
Yen[6] (per $U.S.)	141.25	2.5
Commodity index[6] (CRB futures index, 1967=100)	214.90	-0.3
Oil[6] (W Texas Intermediate)	$19.70	-7.5
T bills[6] (90 days)	5.57%	13 basis points[7]
Broker loan rate[6]	7.50%	unchanged

Note: All data for periods ending 6/13/91. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since the index was created. Stocks listed above have market capitalization of $500 million or more. [1] Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2] Average daily volume over recent 2-week period. [3] Average daily volume over the last 2 weeks, divided by the average daily volume during the preceding 3 months. [4] Morgan Stanley Capital International Perspective. [5] For period ending 6/14/91. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6] Knight-Ridder Financial Information. [7] A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

Foreign vs. U.S. markets



Developed markets

Market	Total return[2] 3 months	12 months	P/E
Hong Kong	8%	22%	12
New Zealand	6	-17	7
Singapore[3]	3	2	20
Finland	-1	-18	34
Netherlands	-1	5	18
Germany	-5	-9	16
Japan	-4	-10	37
Norway	-4	-19	23
Sweden	-3	-9	17
Spain	-2	4	12

Emerging markets

	Total return[2] 3 months	12 months	P/E
Region			
Latin America	35%	44%	NA
Asia	24	-21	NA
Country			
Argentina	81	69	5
Taiwan/China	44	-36	33
Philippines	43	-16	30
Turkey	-28	-22	18
Zimbabwe	-6	49	14
Venezuela	-5	324	29

Very hot in recent years, foreign stocks are up only 9% so far this year in dollar terms, according to a Morgan Stanley index of 1,068 stocks from Europe, Australia, New Zealand and the Far East. That compares with an 18% rise for the S&P 500 index of U.S. stocks.

What about the rest of the year? John Abbink, a vice president at Deutsche Bank Capital Corp. in New York, makes the case for a resurgence in the German market. According to the international edition of the Institutional Brokers Estimate System, 1991 earnings estimates for German companies are being cut less than those of other European corporations. Abbink goes further: He thinks that analysts will start increasing their forecasts for German companies' earnings.

Outside of Europe, Abbink is excited about Hong Kong, Singapore, Malaysia and Australia because of their ties to the U.S. dollar and their local industries that serve the American market. "They will benefit from a strong dollar and an eventual economic recovery in the U.S.," says Abbink.

Who's hot

Company/Country	Business	Price	3-month price change	P/E
L'Espresso/Italy	broadcast, pub	20⅛	44%	51
Genting/Malaysia	leisure	4⅛	35	25
Bombardier B/Canada	aerospace	19¼	32	16
Nippon Yakin Kogyo/Japan	metals	6¾	32	40
Coca-Cola Amatil/Australia	beverages	6½	30	34

Who's not

Company/Country	Business	Price	3-month price change	P/E
Janome Sewing Machine/Japan	appliances	6	-45%	62
Fasa Renault/Spain	automobiles	2	-38	7
Laidlaw B/Canada	trucking	10⅞	-35	13
Continental/Germany	machinery	110	-31	17
Lasmo/UK	energy	5½	-29	15

Cheap foreign stocks

Company/Country	Business	Price	Earnings	P/E
Bayer/Germany	chemicals	170	$17.37	10
Hanson/UK	multicompany	3¾	0.36	11
BCE/Canada	telecom	37	3.11	12
Sony/Japan	electronics	45⅝	2.50	18
Dragados/Spain	construction	26¼	1.23	22

High-yielding foreign stocks

Company/Country	Business	Price	Yield	P/E
SmithKline Beecham A/UK	health care prods	13¾	12.4%	19
Maxwell Communications/UK	printing, pub	3⅝	9.8	11
Westpac/Australia	banking	3⅝	8.9	7
Pagurian A/Canada	financial services	6	8.7	13
Amalgamated Steel/Malaysia	metals	2	8.4	35

Note: Data for period ending 5/31/91. Selected stocks have a market capitalization of at least $300 million. [1]EAFE is a price return index of European, Australian, New Zealand and Far Eastern stocks converted into U.S. dollars. [2]Performance numbers reflect both local price change and currency fluctuation. Dividends are reinvested after subtracting foreign withholding tax. [3]Includes Malaysia. NA: Not available. Principal source: Morgan Stanley Capital International Perspective. Emerging markets data provided by International Finance Corporation for period ending 4/30/91.

Should you play it safe now that the Dow has crossed 3000? No. If history repeats, the market could go a lot further as the recovery unfolds.

Beyond 3000

BY CHARLES E. BABIN

Charles E. Babin is managing director of BRS Capital Management, Inc., an investment management firm in Boston.

HOWEVER equity managers go about setting strategy, they are ever mindful that investors can be fickle. During bear markets, absolute performance counts. But in bull markets, managers stand or fall based on their results relative to the competition.

Unhappily, such pressures foster mediocrity. As long as everybody's performance is more or less the same, the odds of losing clients are slim. On the other hand, there is a serious business risk associated with divergent strategies gone wrong.

This may well explain why so many Wall Street experts missed the rally that began last October and that has carried the Dow Jones industrials from 2365 to past 3000. As I mentioned in my Oct. 1, 1990 FORBES column, consensus thinkers were convinced that there would be an economic domino effect from the wrecking of the Kuwaiti oilfields. The logic seemed impeccable: Runaway oil prices would fuel inflation, exacerbate the economic downturn and keep the stock market weak.

But signals from the credit markets were at odds with the consensus. What's more, the precedent of the market's good performance during previous oil shocks was reassuring. Faced with this somewhat confused situation, many money managers adopted a defensive position, thinking it the safest thing to do. It was a mistake. Trough to peak, the Dow Jones industrials jumped 27%.

In my opinion, today's market line looks too pat and could prove just as costly. Pessimism seems again the order of the day. Just one month after the Dow closed at its alltime high of 3004 (Apr. 17), the gloomsters were back. All it took was a correction of less than 5%. To paraphrase a recent *Wall Street Journal* column: The market's in a catch 22 situation. If the economy recovers, interest rates will rise to choke off further appreciation. But if the recovery fails to materialize, that would be even worse because the rally was based on the assumption that a recovery was at hand.

Maybe so. But there are solid reasons to believe that the rally isn't over. Start by examining the Dow's appreciation during previous bust-to-boom cycles. As shown in the table, since 1950 there have been six occasions when the economy recovered from negative growth years. Interestingly, real GNP growth was supernormal on all but two of those occasions (1971 and 1981). What's more, 1981 was peculiar in two other respects: It was sandwiched between two recession years; and it witnessed two negative GNP quarters.

Notice that the recovery years were preceded by bull markets, even though the economy was mired in recession—not unlike 1991. With the exception of 1981, the momentum stretched into the recovery periods. So, the market has been acting true to form in this rally: It started up even though the economy languished. And, if history is any guide, we can expect it to continue rising even after the economy shows clear indications of recovery.

How far can the market go? In the past when economic growth exceeded 3%, the Dow's average return was nearly 19%. Today's consensus 1992 GNP forecast calls for an anemic 2.5% real growth, but a reliable early indicator—credit-market behavior—suggests a banner year ahead, possibly 4%-plus. History could repeat—which suggests the market could go a lot further as the economy rebounds.

Other signs suggest that stock prices aren't overheated. As I detailed in my Apr. 15 column, the market's capitalization relative to the economy approximates its historical norm. Nor is 3000 on the DJI as high as it may seem. Remember, the Dow peaked at 2722.42 in August of 1987 just prior to Black Monday, which means the index has gained barely 10% in 3½ years, hardly a sparkling performance. In fact, the Dow's cumulative return for the period fell short of that earned on riskless Treasury bills.

Finally, cynics are betting that presidential candidate Bush will make every effort to orchestrate 1992's numbers. In their view, George Bush would love to count 3000 Dow "points of light" among his first-term accomplishments, and items like capital gains tax reform might be just the ticket in an election year.

Sure, strategies that buck the consensus are risky. But no risk, no reward. Beating the average performance demands a willingness to lean against conventional wisdom when conditions warrant it. Today is no exception. In a year or so investors could easily view 3000 as the Dow's new "support" level. ■

Is the rally over?

Recovery year	Real GNP growth	Dow Jones industrial average recovery year appreciation	prior year
1983	3.6%	20.3%	19.6%
1981	1.9	-9.2	14.9
1976	4.9	17.8	38.3
1971	2.8	6.1	4.8
1959	5.8	16.4	34.0
1955	5.6	20.8	44.0
Average	4.1	12.0	25.9

Despite a 600-point rise in the Dow, a return to supernormal GNP growth in 1992 could spell continued prosperity.